Worker Opportunity Tax Credit
October 23, 2008
Slide Notes

Slide 1: WOTC is an incentive program for employers to hire individuals that have never worked for the employer and have experienced difficulty finding employment.
It is for employers that are in business for profit and therefore, subject to federal company taxes.
The program began October 1, 1996, and is in effect through September 1, 2011.

Slide 2: This presentation is designed to help you explain WOTC to your customers, the individual seeking work and the employer seeking to hire. You will learn the target groups that would qualify the employer for the tax credit; some key points about the tax credit and how the employer calculates the credit; the specific qualifying criteria for each target group; key points in completing the program forms; and some additional marketing suggestions.

Slide 3: For Michigan, there are 9 target groups.
Later into the presentation, the specifics for target group verification/qualification will be discussed

Slide 4: The next set of slides will discuss the tax credit and arm you with answers to employer questions related to how the credit works to save them money.

Slide 5: The WOTC credit is claimed by the employer when reporting their federal taxes owed on the company's profits. For example, if the employer owes taxes of $2000 and has the WOTC credit of $2400, the employer would pay nothing as the credit is used dollar for dollar against the company taxes. The remaining $400 of unused credit can be carried back one year or forward to next year's taxes. If the employer files their return and then later receives a determination that the person hired qualifies the employer for the credit, the IRS has allowed employers up to 3 years from the return to claim the credit. Once the credit is claimed, then the employer can use the credit either that year or carry it back one year or forward up to 20 years. Any unused portion of credit can also be transferred upon sale of the business.

Slide 6: For an employer that has hired a qualifying WOTC person, they must also work the person for a period of time in order to claim the credit. Working the new hire 120 hours, but less than 400 hours in the first year allows the employer to claim a 25% tax credit on gross wages allowed for the qualifying target group. Working the new hire for 400 or more hours in the first year allows the employer to claim a 40% tax credit on gross wages allowed for the qualifying target group. The first year of employment begins with the new hires start date and ends 364 days later. It can cross tax years and therefore, this is another reason for allowing employers to claim the credit within 3 years of their return. Also, the hours do not need to be continuous. The new hire may work for 6 weeks and then be laid off and return later within their first year of employment to complete the 400 hours. The new hire could also work for an employer that hires for specific seasons. As long as the employment hours are within the first year worked, the employer can claim the credit.

Slide 7: From the previous slide I had mentioned that there was a cap on the amount of gross wages the employer can use to calculate their credit. This slide shows the maximum gross wages and the maximum credit the employer can claim for hiring and keeping the person employed at least 400 hours in the first year. As you can see, depending on the target group the new hire qualifies under, the credit will change. Knowing this, Michigan's WOTC Unit issues a qualifying determination with the new hire's target group and the maximum gross wages the employer can use to calculate the credit. The hours and wages do not need to be accumulated at the same time, but both are to be achieved within the first year of employment.

Slide 8: For example, an individual qualified for the Food Stamp Target Group begins work 1/1/08, works 10- 40 hour weeks with gross pay of $4,000, is laid off and returns to full time employment 12/1/08, completing the year with $5,600 gross wages. What is the amount of credit the employer can claim?

Slide 9: Answer: 40% of $5,600 = $2,240. Can the employer recalculate the credit based on the wages paid into 2009 since the maximum gross wages for this target group is $6,000? The answer is no, since the wages for this target group are to be earned within the first year of employment 1/1/08 to 12/31/2008.

Slide 10: There is one target group, the Long-Term TANF Recipient, that allows the employer to claim more credit for continuing to work the new hire into a second year. The second year claim uses wages earned in the second year of employment. Going back to our example starting work on January 1, 2008, second year gross wages would begin being paid on and after January 1, 2009.

Slide 11: An employer that has hire a Long-Term TANF recipient, potentially can claim $9000 in credit. This is the largest WOTC credit for hiring just one person. It is a huge incentive for a target group felt to have the most difficulty in securing steady employment.

Slide 12: There is no limit as to the number of qualifying new hires an employer can employ and no limit on the amount of tax credit to be claimed. The only limit is that the person being hired has never worked for the employer in the past.

Slide 13: The next set of slides review in detail each target group's criteria that is used to qualify the new hire for WOTC.

Slide 14: The WOTC Unit uses the DHS CIMS system to review the months of payments for TANF. The IRS interprets family membership to mean that if the new hire has lived with the family for even as little as half a month during the qualifying period (here being 18-months) and the family has been on TANF (here any 9 months), the new hire would qualify the employer for the tax credit.

Slide 15: The Long-term TANF Recipient is someone on welfare assistance for a longer time than the short-term recipient. At this time, Michigan, has no 'cut-off' period as in other states.

Slide 16: In 2007, the age for food stamp recipients was expanded from 24 to 39. The WOTC Unit uses the DHS system to verify both the DOB and food stamps payments. A member of a family again is defined as covering the new hire living in the same household with a family member receiving food stamps for the period under review, then the family member could qualify the new hire for the tax credit.

Slide 17: The next three slides will present the criteria under which hiring a Veteran would qualify the employer for either a $2400 or $4800 tax credit.

Slide 18: The Veteran must have served on active duty for a period of more than 180 days or while serving, been disabled and discharged for the service–connected disability. In addition, for recently discharged Veterans, there is a waiting period of 60 days from discharge to qualify an employer for the tax credit. Why is this? The tax credit is an incentive program. The IRS is allowing time for the Veteran to find new employment on their own and to use the credit as an incentive if after 60 days no employment was secured. The best proof of Veteran status is to provide Michigan's WOTC Unit with a copy of the Veteran's discharge papers (DD214).

Slide 19: Note that the qualifying period for the Veteran on Food Stamp target group is longer than for the Food Stamp Recipient target group (15 months vs. 7 months) and the continuous payments are 3 vs. 6 months. Again the WOTC Unit can verify the food stamp payments.
The Disabled Veteran was new in 2007. A copy of the VA award letter is the best proof for the percent of disability. A signed statement from an authorized individual (job counselor) attesting to what months the new hire was unemployed is acceptable proof for the tax credit.

Slide 20: If approved, the signed release statement will be available on the internet.

Slide 21: Michigan WOTC Unit is seeking state verification of SSI payments in automating with DHS. However, for now, providing a copy of the SSI income letter or a signed statement from an authorized individual verifying that the new hire is receiving SSI payments is suggested for proof.

Slide 22: The WOTC Unit is automated with MRS to obtain Work Plan begin and end dates. Ticket to Work is verified by contacting the federally appointed company, Maximus. Veteran verification would need to be provided from an authorized individual.

Slide 23: The WOTC Unit uses the internet sites for OTIS and ICHAT to verify felony conviction and release dates. Further verification is obtained from the DOC when the website information is missing or unclear.

Slide 24: This target group was renamed in 2007 from High Risk Youth to Designated Community Resident as the IRS added credit for living in Rural Renewal Counties. The age was also expanded to 39 from it former cut –off of 24. The counties of Gogebic, Marquette and Ontonagon are all located in Michigan's Upper Peninsula.

Slide 25: The key to the summer youth target group is to be sure the new hire is 16 or 17 on May 1 if hired after May 1 and that the new hire starts work between May 1st to Sept 15th. In addition, should the employer keep working the summer youth until 18 and they qualify for another target group such as Food Stamps or Designated Community Resident, at the employer's request, the WOTC Unit will recertify the employee so that the employer can claim the remainder balance of the one-year tax credit.

Slide 26: The next few slides will explain the specifics of the two forms used to apply for target group certification from the WOTC Unit.

Slide 27: The front of IRS Form 8850 was designed to be used at the time the employer is hiring new employees. It's intention is to alert the employer to the possibility that the potential new hire could be WOTC qualifying. The employees competes the general information at the top of the form. Key for our state, is if after reading the information under numbers 2 to 5, the individual has checked a box and signed the form.

Slide 28: The back of IRS Form 8850 is to be completed by the employer by the time the job is offered and the employer is requesting target group certification from the WOTC Unit. On the form the employer provides general company information; completes the date information as listed and signs the form. The employer is to make a copy of the form for their records and mail the original signed form to Michigan's WOTC Unit.

Slide 29: While IRS Form 8850 can be mailed separately from the next form, we suggest that both forms are mailed together for a speedy reply.

Slide 30: ETA Form 9061, Individual Characteristics Form is intended to be completed after the employer has decided to hire the individual and therefore, can request that the new hire provide target group information. Some information at the top of the form the employer may complete and some can be completed by the applicant or any authorized individual can complete both.

Slide 31: While there is no time limit for submitting this form, it is strongly suggested that this form be submitted with IRS Form 8850.

Slide 32: The IRS position on applying for target group certification is that the credit while available is for the employer to obtain. Job counselors having a need to use the credit as additional incentive for the employer should supply the necessary information and then leave it up to the employer to timely submit for the tax credit.

Slide 33: Inform employer's of the Michigan website and where to find the information on WOTC.

Slide 34: Forms are available on the website and updates are made available constantly.

Slide 35: No notes.